

July 11, 2003

Maryland Public Service Commission
6 St. Paul Street, 16th Floor
Baltimore, MD 21202

Dear Commissioners:

As members of the Montgomery County Council, we represent hundreds of thousands of residents who stand to be harmed by questionable charges that Verizon is imposing on all of its customers in our County, ourselves included, apparently without Commission approval. We are writing to ask the Commission to prohibit these charges at least until Verizon explains how it calculated and assessed the charges and you determine whether Verizon has legal authority for its actions.

On July 1, Verizon began adding a 9.5-percent surcharge to bills for all current customers in Montgomery County. Verizon is telling customers that part of the new charge is for County taxes that Verizon claims it paid between 1999 and 2003, but neglected to recover from customers because of a software error in a billing system it adopted in 1999.

According to Verizon, the error continued for 5 years – a period during which the company would have owed about \$30 million in County taxes. The company and its auditors apparently took 5 years to discover the missing \$30 million.

Verizon is applying the surcharge even to new customers who had no connection with the alleged Verizon billing error. It appears that Verizon intends to continue applying the surcharge until Verizon recovers the full amount the company allegedly paid for County taxes between August 2001 and this year. Verizon estimates this will take 20 to 22 months at the 9.5-percent rate. Verizon also told us it might eventually bill customers for the additional 3 years between 1999 and 2001. This means that current and future customers in the County effectively will be paying for Verizon corporate taxes assessed for service provided to former customers.

Equally disturbing are the questions that this recent action raises about Verizon's historic practices in our County. The County tax is, and always has been, an excise tax imposed on the **provider**. Unlike other local telephone taxes in Maryland, Montgomery County's tax is **not** a sales tax. Our longstanding excise tax is assessed on each unique telephone number that a telephone company provides to a business or residential customer.

Apparently Verizon has been converting this per-line charge into a percentage charge to customers, effectively changing its own corporate excise tax liability into a consumer sales tax. Verizon tells customers that they are paying a "Montgomery County" tax surcharge, even though the company does not separately identify or bill for its other business overhead costs.

We understand that Verizon periodically determines whether its estimated percentage surcharge on its Montgomery County customers collected the proper amount, then adjusts future surcharge rates to account for the previous shortage or over-billing.

This means that some customers could be paying Verizon \$5 or more a month in “County taxes” for single-line service that is actually taxed at just \$2.00 a month. It strains logic to see how this could be considered a “pass through” of County taxes.

Specifically, we request that you investigate at least the following questions:

1. Does Verizon have the legal authority to back-bill for uncollected telephone taxes? If so, has Verizon followed notification requirements for the Public Service Commission and received any necessary approvals?
2. If Verizon is allowed to collect for its own under-billing errors, how far back can they go and how long can they wait to correct the errors?
3. What authority does Verizon have to collect from new customers amounts allegedly owed by former customers?
4. By what authority can Verizon convert a per-line corporate excise tax on providers into a sales tax on customers? Does the Public Service Commission or the company have independent taxing authority?
5. If Verizon has authority to do any or all of the above, must Verizon disclose to customers how much of the surcharge is due to past Verizon billing errors?

Since Verizon began implementing this policy on July 1, we request that the Public Service Commission move quickly to investigate and resolve these issues.

Sincerely,

Michael L. Subin, Council President

Steven A. Silverman, Council Vice President

Phil Andrews, Councilmember

Howard A. Denis, Councilmember

Nancy Floreen, Councilmember

Michael J. Knapp, Councilmember

George L. Leventhal, Councilmember

Thomas W. Perez, Councilmember

Marilyn J. Praisner, Councilmember

cc: Michael J. Travieso, Maryland People's Counsel